



DEPARTMENT OF
FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

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August 21, 2007

Mr. Brian C. Thomas, Manager
Department of General Services
Contracted Fiscal Services
707 Third Street, 6th Floor
West Sacramento, CA 95605

Dear Mr. Thomas:

Final Report: Department of General Services, Contracted Fiscal Services—Examination of Service Provider Controls

Enclosed is the final report on our examination of service activities provided by the Department of General Services, Contracted Fiscal Services (CFS), as of June 30, 2007. The report concluded that CFS's controls were properly designed and, with limited exceptions, operating effectively. The Department of Finance, Office of State Audits and Evaluations (Finance), performed this examination in accordance with Statement on Auditing Standards Number 70, and pursuant to requirements contained in the Financial Integrity and State Manager's Accountability Act of 1983, Government Code Section 13400 et seq.

The enclosed final report includes CFS's response. We appreciate the assistance and cooperation of CFS staff and management during our examination. In accordance with Finance's policy of increased transparency, the final report will be placed on your website. If you have any questions, please contact Richard R. Sierra, Manager, or Dennis Mehl, Supervisor, at (916) 322-2985, Ext. 3159 or Ext. 3174.

Sincerely,

Original signed by:

Diana L. Ducay, Chief
Office of State Audits and Evaluations

Enclosure

cc: Ms. Deborah Baker, Chief, Office of Fiscal Services, Department of General Services
Ms. Sandy Adams, Chief, Office of Technology Resources, Department of General Services
Ms. Patty Pennington, Accounting Administrator II, Contracted Fiscal Services, Department of General Services
Ms. Celeste Heidler, Accounting Administrator II, Contracted Fiscal Services, Department of General Services

A SERVICE PROVIDER EXAMINATION

Department of General Services
Contracted Fiscal Services

Report on Controls Placed in Operation
and Tests of Operating Effectiveness

For the Period February 1, 2006
through June 30, 2007

Prepared By:
Office of State Audits and Evaluations
Department of Finance

TABLE OF CONTENTS

Section A—Independent Service Auditor’s Report Provided by Department of Finance, Office of State Audits and Evaluations	1
Section B—Description of Relevant Controls Provided by Contracted Fiscal Services	
Overview of Operations.....	5
Relevant Aspects of the Control Environment	6
General Controls	8
Processing Controls	11
Control Objectives and Related Controls.....	18
User Control Considerations	18
Section C—Information Provided by OSAE	
Control Objectives, Related Controls, and Tests of Operating Effectiveness.....	20
Response	49

Section A

**Independent Service Auditor's Report
Provided by Department of Finance
Office of State Audits and Evaluations**



Mr. Brian C. Thomas, Manager
Department of General Services
Contracted Fiscal Services
707 Third Street, 6th Floor
West Sacramento, CA 95605

Independent Service Auditor's Report

We have examined the accompanying description of controls of the Department of General Services, Contracted Fiscal Services (CFS), as it relates to services provided by CFS to user organizations. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of CFS's controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements, (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily and user organizations applied the controls contemplated in the design of CFS's controls, and (3) such controls had been placed in operation as of June 30, 2007. The control objectives were specified by CFS management.

CFS relies on the California State Accounting and Reporting System (CALSTARS) located at the Health and Human Services Data Center. The accompanying description includes only those control objectives and related controls of CFS and does not include control objectives and related controls of the CALSTARS application. Accordingly, our examination did not extend to controls of the CALSTARS application processed at the Health and Human Services Data Center.

Except as discussed in the following paragraph, our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and *Generally Accepted Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States, and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In connection with our examination, there are certain disclosures required by GAGAS Statement No. 3. Both CFS and the Department of Finance, of which the Office of State Audits and Evaluations is a unit, are part of the State of California's Executive Branch, which GAGAS considers an impairment to independence. Also, as required by various statutes within the California Government Code, the Department of Finance's other units are mandated to perform certain management and accounting functions. These activities impair independence. Although the Department of Finance is statutorily obligated to perform these specific activities, we believe that sufficient safeguards and divisions of responsibility exist that would enable the reader of this report to rely on the information contained herein.

In our opinion, the accompanying description of the aforementioned controls presents fairly, in all material respects, the relevant aspects of CFS's controls that had been placed in operation as of June 30, 2007. Also, in our opinion, the controls as described, are suitably designed to

provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and user organizations applied the controls contemplated in the design of CFS's controls.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specific controls, as listed in Section C of this report, to obtain evidence about their effectiveness in meeting the control objectives described in Section C, during the period from February 1, 2006 to June 30, 2007. The specific controls and the nature, timing, extent, and results of the tests are listed in Section C. This information has been provided to user organizations of CFS and to their auditors to be taken into consideration, along with information about the internal control at user organizations, when making assessments of control risk for user organizations. In our opinion, except for the findings noted, the controls that were tested as described in Section C, were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives specified in Section C were achieved during the period from February 1, 2006 to June 30, 2007. However, the scope of our engagement did not include tests to determine whether control objectives not listed in Section C were achieved. Accordingly, we express no opinion on the achievement of control objectives not listed in Section C.

The relative effectiveness and significance of specific controls at CFS and their effect on assessments of control risk at user organizations are dependent on their interaction with the controls and other factors present at individual user organizations. We have performed no procedures to evaluate the effectiveness of controls at individual user organizations.

The description of controls at CFS is as of June 30, 2007, and the information about tests of the operating effectiveness of specific controls covers the period from February 1, 2006 to June 30, 2007. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the controls in existence. The potential effectiveness of specific controls at CFS is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes may alter the validity of such conclusions.

This report is intended solely for the information and use of CFS management, its user organizations, and the independent auditors of its user organizations. However, this report is a matter of public record and its distribution is not limited.

Original signed by:

Janet I. Rosman, CPA
Assistant Chief, Office of State Audits and Evaluations

July 31, 2007

Section B

**Description of Relevant Controls
Provided by Contracted Fiscal Services**

OVERVIEW OF OPERATIONS

Contracted Fiscal Services (CFS) is a section within the California Department of General Services (DGS), Office of Fiscal Services. CFS is a full service fiscal office, providing budgeting and accounting services to other State of California organizations on a fee for service basis. Annually, CFS prepares a Memorandum of Understanding (MOU) with each of its clients. The MOU outlines the services to be provided and the cost of these services. CFS is self-supported from client fees and does not receive a general fund appropriation. The DGS provides fiscal, human resources, and information technology services to CFS and its staff.

CFS was originally created to meet the needs of the state's small boards and commissions, but has grown over the years to handle the accounting function of larger departments. Current clients range from small commissions with as few as three employees and a budget of under \$500,000, to large departments with over \$1 billion in annual expenditures.

CFS also accounts for bonds issued by the Public Works Board, various Joint Powers Authorities, and Golden State Tobacco Securitization Corporation. Bond funds are audited annually by the State Controller's Office (SCO) and a private CPA firm. As such, the bond processes and controls are not included in this report.

During the period February 1, 2006 through June 30, 2007, CFS had 42 clients. To manage its workload, CFS has 35 authorized positions assigned to its two operational sections: the Payments Section and the Account Managers Section. The Payments Section consists of fourteen positions and is responsible for the payment of client expenditure claims. For fiscal year 2005-06, the Payments Section paid over \$2.2 billion in claims. The Account Managers Section has nineteen positions and each Account Manager is responsible for the budgeting and/or accounting function for their assigned clients. Account Managers are assigned one to four clients each. In addition, CFS has two administrative positions. For 2005-06, the Account Managers Section prepared 170 sets of year-end financial statements.

CFS uses a number of automated systems to deliver budget and accounting services to clients. These systems include the California State Accounting and Reporting System (CALSTARS), CFS Accounting and Reporting Disbursement System (CARDS), Lease Revenue Bond Accounting Application, and the Fixed Asset Application. CALSTARS is maintained and supported by staff at the Department of Finance (Finance); and the CARDS, Lease Revenue Bond Accounting, and Fixed Asset systems are maintained by the DGS, Office of Technology Resources (OTR).

The CARDS application is a sub-system designed to support the accounting and reporting for cash receipts and disbursement transactions for DGS checking account 089, as it relates to the various CFS clients. In addition, the application is used for specialized processing of claim schedule transactions that are uploaded into CALSTARS.

The Lease Revenue Bond Accounting Application supports the bond accounting and reporting needs of the Public Works Board and Joint Powers Authorities. This application is also used to prepare financial statements for two clients that are not on CALSTARS and have no bond funds. The application provides general ledger accounting, invoice processing, and specialized reporting activities.

The Fixed Asset Application is a subsidiary system designed to track tangible and intangible fixed assets. The application will maintain the asset description, acquisition date, value, and

location. This information supports the total asset balance recorded in the general ledger account.

CFS primarily uses the standard accounting reports provided by CALSTARS. When CALSTARS does not meet a client's needs, CFS develops special reports by downloading CALSTARS data to an excel file using Monarch software.

CFS uploads CARDS payment information to CALSTARS daily. Also, CFS downloads vendor information to update CARDS vendor files as needed.

In addition, clients' payroll costs are transferred from the SCO payroll system to CALSTARS monthly.

RELEVANT ASPECTS OF THE CONTROL ENVIRONMENT, RISK ASSESSMENT, AND MONITORING

This description of CFS's internal control as it relates to user organization transactions is intended for use by independent auditors and potential clients. It has been prepared according to guidance contained in the American Institute of Certified Public Accountants' Statement on Auditing Standards (SAS) No. 70, *Reports on the Processing of Transactions by Service Organizations*, as amended. Because this description focuses on controls relevant to user organizations, it may not encompass all aspects of the CFS's operations, controls, or procedures.

Organization

The management of CFS is comprised of an Accounting Administrator III, two Accounting Administrator IIs, two Accounting Administrator Is, and a Senior Accounting Officer. As noted above CFS is organizationally divided into the Payments Section and the Account Managers Section, with dedicated staff assigned to each section.

CFS's activities are conducted in accordance with the CALSTARS Procedures Manual, State Administrative Manual, State Contracting Manual, internal policies and procedures, and MOUs.

Management Control

Quarterly and year-end checklists are used by Account Managers and supervisors to monitor key controls and measure performance. Performance reviews are completed for the quarters ending March and December of each fiscal year.

In the Payments Section supervisors or leads review claim schedules and supporting documents to ensure accuracy and timeliness.

Employment Policies and Procedures

Competent and trained accounting personnel are recognized by CFS management to be a key business requirement. CFS has formal hiring practices designed to ensure that new employees are qualified for their positions. The hiring of new staff is jointly approved by DGS's Office of Human Resources (OHR) and the CFS Manager of the section filling the position. CFS is an equal opportunity employer.

CFS uses the following procedures for hiring new employees:

The CFS Manager determines the essential requirements of the job. The Manager then submits a Request for Personnel Action (RPA) form to the OHR. This form tells the Classification and Pay Analyst what the Manager, in consultation with the Personnel Liaison, wants to do with an existing vacancy. A Job Opportunity Bulletin is posted for at least ten days and all applications received are date stamped. The Classification and Pay Analyst will verify the eligibility of qualified applicants. After securing an interview panel, interviews are conducted. Previously prepared interview questions focusing on key success factors are used. The interview panel rates each candidate using an interview rating scale. CFS only makes job offers after references are checked. The OHR documents all new hires and retains the hiring materials for two years after the appointment date.

New employees attend the OHR's new employee orientation, where they are provided an overview of DGS's vision, mission, services, personnel policies, and administrative policies and procedures. The personnel policies include information about DGS's:

- Incompatible Activity Statement
- Conflict of Interest Policy and Procedures
- Sexual Harassment Policy
- Workplace Violence Prevention Policy

CFS provides new staff with on the job training. An experienced staff is assigned to train the new staff on each information system and application. CFS management provides training to experienced staff on non-routine and advanced tasks, or when new procedures are implemented.

Performance evaluations are conducted on a periodic basis using standard form 637, *Performance Appraisal Summary/Individual Development Plan*, to provide an objective appraisal of an employee's current performance and development potential.

External Bond Audits

CFS accounts for the bonds issued by ten clients. The State Controller's Office and a private CPA firm performed financial audits on eight of these clients' bond funds as follows:

1. State Public Works Board
2. Golden State Tobacco Securitization Corporation
3. Capitol Area Development Authority
4. Los Angeles State Building Authority
5. San Bernardino Joint Powers Financing Authority
6. East Bay State Building Authority
7. San Francisco State Building Authority
8. Oakland State Building Authority

Bond audits were not performed on the Riverside County Public Financing Authority or the Sacramento City Financing Authority because the state is not a party to the joint powers agreements. Accordingly, the County of Riverside and the City of Sacramento, respectively, are responsible for the audits of bond issues in accordance with bond covenants.

Other Considerations

CFS's controls are documented in policy and procedure manuals which are updated periodically.

A Conflict of Interest policy exists and a Conflict of Interest Affidavit is required to be completed by employees who participate in making decisions affecting purchases, acquisitions, contracts, leases, regulations, or legislation. The Accounting Administrator III and both of the Accounting Administrator IIs have signed the Conflict of Interest Affidavit.

GENERAL CONTROLS

General controls are those controls that apply indirectly to transactions processed by CFS and contribute to the effectiveness of specific controls. The general controls are discussed under the following categories:

- Organization and Administration
- Information Security
- Systems Development and Maintenance
- Computer Operations
- Technical Support and Database Administration

Organization and Administration

The DGS is organized into various operational divisions and sections. The Management Services Division (MSD) includes several sections that support the DGS. All the sections within the MSD report to the Deputy Director. The Office of Fiscal Services (OFS) provides financial and budget services to the DGS.

The Office of Technology Resources (OTR) provides the technical staff to support information systems and applications. The OTR reports to the Chief Information Officer of DGS, and is divided into three main sections: Enterprise, Network, and Desktop Section; Web and Application Technology Section; and Commercial Technology Section.

The Enterprise, Network, and Desktop Section provides support to the hardware and network infrastructure. This section has units that support various functions: (1) Network Infrastructure and Connectivity (NIC) supports telecommunications, switches, routers, Domain Name System, and firewalls; (2) Messaging, Account Administration, and Printer Services (MAAPS) provides support for the departmental e-mail and maintains network logins and assigning rights, and also oversees the purchase, maintenance, and installation of printers; (3) Server Administration Backup and Recovery (SABAR) is responsible for support of file, application, and web servers, and also purchases, installs, and maintains all the servers; (4) End User Support Services (EUSS) supports anything related to desktop activities, including the purchase, installation, and maintenance of laptops and desktops, and installation and support of desktop software such as Windows XP, MS Office, McAfee virus scanner, and Outlook.

The Web and Application Technology Section provides support for various applications, websites, and utilities, including the DGS internet and intranet websites, google search

appliance, and content management system. This Section also develops, modifies, tests, and implements various web applications.

The Management Information Systems Section supports the Oracle HR and Financial Systems, various other applications including a facilities management system and a small business certifications application. The Legacy Unit supports and maintains various applications including Clipper, COBOL, DataEase, and Powerbuilder.

CFS provides for proper segregation of duties via its dual-section organizational structure (i.e. Payments and Account Managers). An administrative staff employee acts as the cashier and the Accounting Administrator III is responsible for all activities within CFS.

The Payment Specialists are primarily responsible for processing payment documents timely and accurately for assigned clients, and for verifying that the payment instrument is properly authorized and in a form acceptable to the SCO. Additional responsibilities include researching and resolving claim corrections and outstanding revolving fund items, determining required corrective action, and informing the client of actions required to make the payment.

The Account Managers' primary responsibilities include maintaining CALSTARS tables; analyzing documents to determine proper accounting treatment; recording accounting transactions in CALSTARS; reconciling accounting records with the SCO; preparing and posting budget schedules and revisions; and preparing cost projections, cash flow analyses, and forecasts.

Five Account Managers are assigned bond accounting duties. Because the bond funds are audited annually by the SCO and a private CPA firm, they are not within the scope of this examination.

Information Security

Physical Security

CFS and OTR are located in the DGS Headquarters building in West Sacramento. Access to the building is restricted by card key controlled doors and security guards. The lobby is in full view of the security guards. Data from the CARDS and Lease Revenue Bond Accounting application is stored in the Microsoft SQL Server 2000 (MSS), located in a restricted server room in this same building. A card key is required to access the server room, and the room is equipped with the standard security features including, but not limited to, fire suppression system and raised floor. Only persons authorized by DGS management have access to this room. The system logs each access to the server room. Also, the cleaning crew does not have access to the server room. Level of access is changed if an employee separates or duties change. The files in the MSS are backed-up daily and weekly. The data in the server are purged after three years.

The Fixed Asset Application was created by the OTR in 1998 using Microsoft Access. The data is stored on the network file server which is also located in the aforementioned server room.

Logical Security

Due to the number of clients and volume of transactions processed, CFS utilizes various automated systems, as described above, to record transactions and prepare reports and financial statements for clients.

The CALSTARS application is maintained by the Department of Finance. The level of access is assigned by the CFS Security Officer. The CALSTARS CSB 017-1, *Security File By Agency Report*, shows the level of access allowed for each staff at CFS and DGS. The CFS Security Officer has assigned a unique user ID to each CFS client. A single password is assigned to all Account Managers and a single password to all Payment Specialists. In addition, CALSTARS requires a change of password every 90 days. Because CFS has 32 clients on CALSTARS, management prefers to have flexibility with passwords so that staff can back-up each other when they're on sick leave or vacation. The risk of fraud is low because payments are processed in the CARDS system and uploaded into CALSTARS.

On the Lease Revenue Bond Accounting Application, only designated Account Managers have access. Because a password is assigned to each bond fund, some agencies with multiple funds require more than one password. This application is used mainly for reporting purposes and no payments are processed from this system.

CARDS uses Visual Basic as the program language and Microsoft Access as the database. The CARDS system administrator assigns user IDs and passwords.

The Fixed Asset Application allows the user to make additions, changes, or deletions to fixed assets. Passwords are required and only the CFS Account Managers are allowed access. The data is stored in a temporary file until the information is uploaded to a permanent file on the first day of each month. The data is backed-up daily by the OTR.

The DGS has an Information Security Policies and Procedures manual that was last updated in July 2000.

Systems Development and Maintenance

The CARDS, Lease Revenue Bond Accounting, and Fixed Asset applications were developed by the OTR in 1998. The Lease Revenue Bond Accounting Application was updated in 2000 and CARDS was updated in 2006. Two Senior Programmer Analysts in the OTR provide program enhancements, updates, and problem resolution on these applications. When CFS needs assistance from the OTR, it submits a work request. A ticket is generated after the request is entered into the Remedy Action Request System. The ticket is then routed to the appropriate group within OTR. After the Senior Programmer Analyst makes program enhancements, OTR evaluates the system in a test environment to determine if it's working properly. After testing, OTR copies executable files into CFS's production environment.

Computer Operations

The CARDS, Lease Revenue Bond Accounting, and Fixed Asset applications are available to users at all times except during system maintenance and file backup. System maintenance is performed twice a month.

The data entered into CARDS is uploaded into CALSTARS daily at 2:30 p.m. by a designated CFS employee. This employee verifies that the transaction count in CARDS agrees with the count in CALSTARS.

The various CFS systems are not monitored by OTR staff. Instead, CFS informs OTR when problems occur. The servers where the applications reside are monitored by SABAR for space and performance issues, and security patches are provided as needed by SABAR.

Technical Support and Database Administration

The three OTR-developed systems are updated as needed and upon request by CFS. No additional functionality is currently being added to the applications. However, CFS periodically submits requests to resolve data problems or add reports. These requests are assigned to the Management Information Systems Unit. This Unit provides application and database administration support as needed. SABAR provides server, virus checking, and network backup support as needed. The EUSS and MAPPS units provide desktop and email support, respectively, as needed.

PROCESSING CONTROLS

CFS uses four major information systems to perform the following functions for its clients.

- Budget
- Contracts and purchases
- Payments
- Payroll
- Accounting
- Reports
- Cash receipts
- Cash disbursements
- Fixed assets

These systems and functions are described in detail below.

Systems

CALSTARS

CFS's primary accounting and reporting system is CALSTARS. CFS utilizes the following CALSTARS features:

- Automated preparation of claim schedule face sheets and remittance advices.
- Automated cost allocation capability that allows indirect costs and administrative overhead to be allocated to programs, projects, activities and/or organizational units of an agency.
- The document tracking capability for accounting and reporting of individual accounts receivable, accounts payable, and encumbrances.
- The standard reporting process which allows agencies to request reports or groups of reports through on-line screens.

- The automated process for recording claims paid by the SCO. At the end of each month, payment data is electronically transferred from the SCO to create transaction records of payments from outstanding claims filed.
- The on-line inquiry capability to access the Document File and the Vendor Payment File, to track and monitor encumbrances, contracts, and vendor payments.
- The automated process for month-end and year-end accounting and reporting activities to assist agencies in their reconciliations with SCO's accounting records.

CARDS

CARDS is a sub-system designed to support the accounting and reporting needs for cash receipt and cash disbursement transactions. The application has eight major modules:

- (1) Cash Receipts
- (2) Payments
- (3) Cash Disbursements
- (4) Printing Claim Schedules/Checks
- (5) Cash Account
- (6) Bank Reconciliations
- (7) System Maintenance
- (8) Special Processing

(1) Cash Receipts

The cash receipts module allows the user to perform data input, edits, and file updates for all deposits into Checking Account 089. Reports are generated that support the cash receipt and deposit transactions.

(2) Payments

The payment module allows the user to prepare claim schedules, make adjustments to claim schedules, account for non-CALSTARS payment transactions, view, and analyze payment activities.

(3) Cash Disbursements

The cash disbursements module allows the user to create, cancel, void, or reclassify checks; adjust SCO electronic transfers; and generate reports supporting cash disbursements.

(4) Print Claim Schedules/Checks

The print claim schedules/checks module allows the user to print claim schedule face sheets, remittance advices, and checks.

(5) Cash Accounts

The cash accounts module provides the user with information regarding the account balances for general cash, trust cash, and office revolving fund cash. The module allows the user to upload cash details to a permanent file.

(6) Bank Reconciliations

The bank reconciliations module allows the user to upload SCO bank reconciliation information, and perform a comparison between the SCO bank account and the application's account. The application will identify the reconciling items and provide a detailed summary by agency for general cash, trust cash, and office revolving fund cash.

(7) System Maintenance

The system maintenance module provides the application with the information needed to perform the various application functions. It includes table maintenance, password access, system maintenance reports, vendor edit purge, CALSTARS reload, and reset of claim schedule numbers.

(8) Special Processing

The special processing module is used for specialized accounting activities or uploads. Included in this module is the upload to CALSTARS, use tax, equipment, omnibus, year-end process, reportable payments, and CFS employees report.

Fixed Asset Application

The Fixed Asset Application is a subsidiary system designed to track tangible and intangible fixed assets and provide comprehensive asset details and balances that support the general ledger control accounts. Adjustments are made for acquisitions, dispositions, and physical inventories.

Lease Revenue Bond Accounting Application

The Lease Revenue Bond Accounting Application is designed to support the unique accounting requirements of lease revenue bond programs, and other specialized uses. The application provides integrated general ledger accounting and reporting functions primarily to CFS's bond clients.

Functions

Budget

Clients for which CFS performs the budgeting function will have their appropriation and budget plans entered into CALSTARS by September 30 of each year. For those clients who perform their own budgeting, CFS will load the budget plans within 30 days after receiving the details from the client. This information will provide the basis for the monthly budget reports. Budget plans may be periodically revised based on the client's direction via budget revisions, transfer of budget authority, or other written instructions.

The Account Manager will work with the client and Finance to prepare all required schedules for the Governor's Budget, and will submit the completed budget package to Finance upon the client's review and approval. The Account Manager also submits updated versions of budget documents to the client and Finance, as corrections or amendments are made to the budget. If required, the Account Manager will realign the current year budget plans in January or February in CALSTARS. These budget plans are used to reconcile the client's appropriations to the

SCO's monthly tab run. CFS will also prepare special reports and appropriation projections as requested by the client. The Account Manager monitors revenue and expenditures and informs clients of any potential budget deficiencies.

Contracts and Purchase Documents

CFS's services are limited to the certification of funding, recording of encumbrances, and distribution of completed contracts to appropriate agencies. CFS does not prepare or authorize clients' contracts. It is the client's responsibility to ensure that all state contract delegation and procurement procedures are followed. Unless otherwise exempt, contracts over \$50,000 are routed by CFS to the DGS's Legal Department for approval. CFS logs completed/authorized contracts and distributes copies to the contractor, client, SCO, and Payments Section.

The Payment Specialist will record an encumbrance for contracts and purchases of \$500 or more. On all purchase documents, the Payment Specialist will verify the index, program cost account, authorization, and enter the transaction into CARDS. The Payment Specialist maintains a file of open purchase orders. After the client confirms that the items were received and submits an invoice to CFS, the Payment Specialist will initiate the payment process.

CFS also encumbers grants as directed by clients.

Payments

CFS strives to make timely and accurate payments of client claims, including invoices, travel expense claims, and advances. It is CFS's goal to process all travel expense claims within three working days and all invoices within fourteen working days.

Upon receipt of payment documents, the Payment Specialist will date stamp the document, determine the payment due date, and verify client authorization. Client signature cards are on file in CFS and are reviewed to determine if the approver has authority. The Payment Specialist also assigns an account code (or reviews client coding), compares invoice with purchase document and (where required) stock received report, and determines payment method (i.e. revolving fund, expedite, or claim schedule). In addition, the Payment Specialist checks for late payment penalties and reportable payments. The Payment Specialist will record payment information in CARDS by batching invoices and preparing a batch header slip. The Specialist will run a tape of the invoices and attach it to the batch. After the payment has been recorded, the Specialist will attach a claim schedule face sheet to the invoices. A payment supervisor or lead Payment Specialist will review claim schedules for accuracy. The reviewer will then forward the claim schedules to the Account Manager for review of funding information, signature, and distribution to the SCO. Monthly, the Payment Specialist will receive a CALSTARS D-16 report to reconcile encumbrance balances.

For CAL-Card transactions, CFS staff review the CAL-Card statements and receipts to ensure that they are properly authorized and complete.

The Payment Specialist will query the CARDS file to verify that the vendor is in the system and a Vendor Data Record (STD 204) is on file. If this is a new vendor, the Payment Specialist will ask the client to request a Form 204 from the vendor. After the STD 204 is received, the Payment Specialist adds the vendor to the CARDS vendor file.

The Payment Specialist will also complete a lost discount and earned discount log. This information is entered into CARDS during the month. The supervisor prints and reviews the report at the end of each month.

Some payments, such as Prison Industry Authority transactions, are processed via an SCO journal entry.

Payroll

Payroll warrants are mailed or picked-up by clients at least one day before the end of the pay period, and supplemental payroll warrants and advances upon receipt of release. A DGS courier picks up client payroll warrants from the SCO and delivers them to the CFS cashier. The cashier counts and sorts the warrants by department and compares them to the payroll release. The payroll release originates from the client's personnel office and authorizes the CFS cashier to distribute the payroll warrants. The cashier will ensure that there is a release for each warrant unless directed otherwise by a client's memo. If the checks are to be mailed, CFS will prepare the UPS/FedEx package and deliver it to the mailroom. If the client is to pick up the payroll warrants, CFS will deliver these warrants to DGS's Business Services Office (BSO) for pick-up. Clients picking up payroll warrants from BSO are required to sign for the warrants received.

Salary advances originate from the client's personnel office. The personnel office will prepare a salary advance request and send it to the CFS cashier. The CFS cashier will confirm whether the client's personnel office approved the payroll advance. Also, the CFS cashier will confirm whether the employee is in the payroll system and whether there are any other outstanding salary advances. The salary advance request is forwarded to a Payment Specialist who will enter the information into CARDS. An Account Manager will print the revolving fund check and deliver the check and back-up documentation to another Account Manager, who will also review the documentation and distribute the check based on the client's instructions.

CFS will monitor salary advances and follow-up with clients to ensure collection of outstanding advances. With the client's approval, CFS will deposit the employee's regular salary warrant to collect the amount due and issue the balance to the employee.

Reports

CFS sends standard monthly accounting and budget reports to clients by the end of the following month. Other specialized reports are ordered upon request. For each client, CFS prepares the second and third quarterly financial reports and fiscal year-end financial reports, in accordance with the State Administrative Manual (SAM). This package includes all required state and federal reports. CFS certifies the year-end statements and delivers them to the SCO by the required due date.

Cash Disbursements

CFS uses General Checking Account number 089 for all clients to pay vendors and employees when immediate payment is necessary, remit cash receipts to the State Treasurer, purchase dishonored checks from banks, and refund overpayments. This account is funded by client advances and comprises office revolving fund cash, general cash, and trust cash.

Revolving Fund Disbursements

Payment Specialists complete a revolving fund request which shows the reason for the payment, then record the transaction in CARDS. Payments typically include salary advances, travel advances, travel expense claims, invoices requiring expedited payment, utility bills, phone bills, credit card bills, and occasional refunds and dishonored checks. Payments greater than \$15,000, other than for utilities, require approval from supervisors in the Payments Section or the CFS Manager. Supervisors also review and approve client-initiated payment requests. The Payment Specialist will generally record the disbursement information into CARDS prior to 11:00 a.m. and generate a check on the same day.

Remittances to the State Treasurer

CFS remits client funds to the State Treasurer according to SAM guidelines (i.e. at least once every thirty days or the next day if accumulated collections exceed \$25,000). An Account Manager will prepare a remittance advice based on the Report of Collections and/or Report of Deposits. The Account Manager will then prepare a General Cash form which shows the amount and reason for the payment, acquire a supervisor's or the Accounting Administrator III's approval, and submit the form to a Payment Specialist for processing.

Check Control

All checks are printed and reviewed by separate Account Managers who do not have access to any other part of the check process. The review process includes verification that the information on the check agrees with the supporting documents (invoice, check request, remittance advice, etc.), and that two signatures are obtained for checks over \$15,000 (manual signature in conjunction with the machine-stamped signature). Checks are either delivered to the DGS's Business Services Office or mailed as requested. All checks delivered to the BSO require a signature before they are released.

Monthly, the bank account coordinator reconciles the checking account and an Account Manager reconciles the cash receipts register. CFS monitors outstanding travel advances and follows-up with clients to ensure prompt collection. Annually, CFS submits a revolving fund deficiency report to Finance, Office of State Audits and Evaluations (OSAE), by September 1st of each year for the preceding fiscal year.

Cash Receipts

Collections are received and endorsed by clients. Clients will either deposit the collections or send them to CFS for deposit.

Collections Deposited by CFS

The CFS Account Manager will either complete a Report of Collections (ROC) or review the ROC submitted by the client. The ROC will be recorded in the cashiers log by the Account Manager, who will give the CFS cashier both the checks and the ROC. The cashier verifies that the checks have been endorsed and records the ROC in CARDS and prints a report showing the total to be deposited. The cashier then runs an adding machine tape on the checks and compares the total with the CARDS report, ROC, and cashier's log. When all totals agree, the cashier will prepare the deposit. A CFS supervisor will verify and initial the deposit slip. CFS makes deposits daily.

The cashier places the deposits in a sealed bag and delivers the bag to the BSO. The BSO will require the bank courier to sign for the deposit. The cashier will send an e-mail to the STO if the deposit is over \$100,000. A copy of these e-mails is retained in a binder. The cashier prints a summary of all deposits to be remitted from CARDS, along with the supporting documentation, and inserts it into the client's folder. This summary report and supporting documentation is used by the Account Manager to remit funds.

CFS keeps numeric control over deposit slip numbers assigned to clients. This includes deposit slips that are provided to clients that make their own deposits. In addition, the deposit slips log is reviewed to ensure that the numerical sequence is intact.

Collections Deposited by Clients

Clients send their ROCs and deposit slips to CFS for recording. The cashier records the deposits in CARDS and prints a report summarizing the total deposit. The summary report, along with supporting documentation, is placed in the client's folder and used by the Account Manager to remit funds.

Accounting

CFS is responsible for maintaining accurate and current accounting records. All transactions are recorded in the month they occur and reconciled monthly to the records maintained by the SCO. This reconciliation is completed by the end of the following month. All reconciling items are noted and corrected prior to the end of the following month. Quarterly, this reconciliation is reviewed by a supervisor.

Account Managers maintain the CALSTARS tables, code and record all monthly transactions, run cost allocation and/or fund split reports, perform SCO reconciliations, prepare transfers of cash into different funds/accounts, order reports for CFS files and clients, and perform year-end closing transactions.

Fixed Assets

CFS records fixed asset transactions based on client direction and documentation in the Fixed Asset Application, and reconciles recorded information with the general fixed assets account group on a monthly or quarterly basis. Account Managers query clients about any assets that have not been recorded in the Fixed Asset Application and request a stock received report. CFS sends clients updated property reports/listings annually. One listing contains items \$5,000 and above and the other contains items under \$5,000. The items \$5,000 and above are capitalized and recorded in the general ledger accounting application. These lists provide the basis for clients to certify the accuracy of recorded property, and to make any necessary adjustments in accordance with SAM Section 8652. After the property reports/listings are checked and returned, the Account Manager will update the client's property records and retain the listings for five years or until audited. Although CFS sends out the listings every year, clients are only required to perform a physical inventory once every three years.

An administrator of the Fixed Asset Application maintains the master file that tracks capitalized property, and reconciles on a monthly basis all transactions recorded in the Fixed Asset Application.

CONTROL OBJECTIVES AND RELATED CONTROLS

CFS's control objectives and related controls are included in Section C of this report. Although this information is presented in Section C alongside Finance's test results, it is an integral part of CFS's description of controls, and as such, is an extension of the information contained in Section B.

USER CONTROL CONSIDERATIONS

CFS's controls comprise only a portion of the overall internal control and risk management program for each client. Clients play an important role in this process by implementing and maintaining effective control over their operations. Each client's internal control depends on the nature of the transactions processed by CFS, the degree of interaction with the controls, and the MOU with CFS.

The following list highlights those controls that CFS believes should be present at each client. CFS has considered the following controls in developing the control objectives described in Section C of this report. Each client must evaluate its own internal control to determine if the following procedures are in place. The following list is intended to address only those controls surrounding the interface and communication between each client and CFS.

CFS's clients should ensure that:

- Instruction and information provided to CFS is in accordance with the provisions of the MOU, SAM, State Contracting Manual, or other applicable laws and regulations.
- Effective control over physical and logical access to CALSTARS terminals at client locations is established, monitored, and maintained.
- CFS receives timely written notification of changes to individuals authorized to direct or transact business with CFS.
- Reports, account balances, and related activity provided by CFS are reviewed timely, and that written notice is promptly provided to CFS of any discrepancies.
- Budget documents are reviewed and approved by knowledgeable staff.
- Adequate separation of duties is maintained.
- Invoices, purchase orders, and contracts are reviewed and approved prior to submission to CFS.
- Year-end accrual information is complete and accurate.
- All cash receipts are identified by fund, program, and type when required.
- Stock received reports, equipment surveys, and transfers of location of equipment forms are submitted to CFS timely.
- Equipment is physically inventoried at least once every three years.

Section C

**Information Provided by
Department of Finance
Office of State Audits and Evaluations**

CONTROL OBJECTIVES, RELATED CONTROLS, AND TESTS OF OPERATING EFFECTIVENESS

Organization and Administration

Control Objective 1: Controls provide reasonable assurance that adequate segregation of duties exists between application programming, information security, and technical support.

Control Objective 2: Controls provide reasonable assurance that adequate segregation of duties exists between CFS Account Managers and Payment Specialists.

Controls	Tests Performed	Results of Tests
The control structure of the Office of Technology Resources (OTR) provides for segregation of incompatible duties, including application programming, information security, and technical support.	Inquired of the Information Technology Manager and the Data Processing Manager, inspected various OTR organization charts, and observed operations to determine whether the OTR structure provides for the segregation of incompatible duties.	No exceptions noted
Job descriptions are available for each position. Job descriptions promote segregation of duties by identifying the duties and responsibilities for the position.	Inspected a sample of OTR and CFS job descriptions to determine whether job responsibilities are defined.	No exceptions noted
The control structure of the CFS provides for segregation of incompatible duties between Account Managers and Payment Specialists.	Inquired of the CFS Manager, inspected the CFS organization chart, and observed operations to determine whether the CFS structure provides for the segregation of incompatible duties.	No exceptions noted

Based on the tests of operating effectiveness described above, the controls are operating with sufficient effectiveness to reasonably achieve the control objectives.

Control Objective 3: Controls provide reasonable assurance that established policies and procedures adequately document hiring, staffing, and training practices.

Controls	Tests Performed	Results of Tests
Potential employees are interviewed and evaluated as part of the hiring process.	Inquired of the CFS Manager to determine whether potential employees are interviewed and evaluated as part of the hiring process. Inspected the Human Resources hiring policies to determine whether potential employees are both interviewed and evaluated.	No exceptions noted
Performance evaluations are performed on a periodic basis.	Inquired of the CFS Manager about the nature and frequency of performance evaluations and to determine whether the evaluations were performed on a periodic basis. Inspected a limited sample of evaluations.	No exceptions noted
Training is provided to employees in order to maintain the knowledge and skills needed to perform jobs adequately.	Inquired of CFS supervisors to determine whether training is available to employees for skills development. Observed new staff training.	No exceptions noted

Based on the tests of operating effectiveness described above, the controls are operating with sufficient effectiveness to reasonably achieve the control objective.

Information Security

Control Objective 4: Controls provide reasonable assurance that CFS information assets and data servers are protected from physical loss or damage.

Controls	Tests Performed	Results of Tests
Procedures are in place to ensure that access to CFS data and the data servers in the OTR is limited to appropriate personnel.	Inquired of the OTR Data Processing Manager about the access policies and procedures for the OTR server room, and observed operations. Inquired of the CFS Manager about the access policies and procedures for CFS, and observed operations.	No exceptions noted
Visitors are required to sign in and out at the lobby when visiting the DGS Headquarters, including OTR and CFS.	Observed the visitor sign in and sign out process in the lobby of the DGS building.	No exceptions noted
Surveillance cameras and key card scanners are utilized to actively monitor all entrances to the DGS building.	Observed the DGS building and inquired of the security personnel on duty to determine whether key cards restrict access and surveillance cameras are utilized to monitor access to the DGS building.	No exceptions noted

Based on the tests of operating effectiveness described above, the controls are operating with sufficient effectiveness to reasonably achieve the control objective.

Control Objective 5: Controls provide reasonable assurance that logical access to programs and data is limited to properly authorized individuals.

Controls	Tests Performed	Results of Tests
The level of CALSTARS access is assigned by the CFS security officer and is based on required job duties.	Inspected the CALSTARS CSB 017-1, Security File By Agency Report, to determine the level of access assigned to CFS Account Managers, Payment Specialists, and clients.	Some clients still have access to input, view, and print in CALSTARS. Disposition: The Manager of CFS deleted three clients' access to CALSTARS. Also, the daily batch reconciliation will minimize the risk of unauthorized transactions.
A unique CALSTARS user ID is assigned to each client. All Account Managers share the same password and all Payment Specialists share the same password for 90 days.	Inquired of Account Managers and Payment Specialists to gain an understanding of the user ID and password procedures.	No exceptions noted
CALSTARS denies users access to the system after three unsuccessful attempts.	Inquired of Account Managers and CFS Manager to determine whether CALSTARS denies user access to the system after three unsuccessful attempts.	No exceptions noted
Formal termination procedures have been implemented to ensure the prompt removal of separated CFS employees from system access.	Inspected the employee separation checklist and CARDS access checklist for selected employees to determine whether CFS implemented formal termination procedures.	No exceptions noted
On the Lease Revenue Bond Accounting Application, only the Account Managers assigned to perform revenue bond accounting work and general accounting work have access to this application. A password is assigned to each fund. Therefore, some agencies with multiple funds require more than one password.	Inquired of Account Managers to determine who has access and whether a password is assigned to each fund.	No exceptions noted

On the CARDS application, the system administrator assigns the level of access based on required job duties. Each staff is assigned a unique user ID and password.	<p>Inspected CARDS access reports for selected staff to determine whether the level of access assigned is compatible with their job duties.</p> <p>Inquired of Account Managers to determine whether unique user IDs and passwords were assigned to each staff.</p>	<p>Two Account Managers had access to create claim schedules, which is incompatible with their other assigned duties.</p> <p>Disposition: The system administrator removed these Account Managers from access to claim schedule processing.</p>
On the Fixed Asset Application, the system administrator assigns the same password to staff that require update capability. Specifically, only the Account Managers have access to the Fixed Asset Application.	<p>Inquired of Account Managers to determine if the same password is used by all Account Managers and if only Account Managers have access to the Fixed Asset Application.</p> <p>Observed operations.</p>	No exceptions noted

Based on the tests of operating effectiveness described above and the corrective actions as noted above, the controls are operating with sufficient effectiveness to reasonably achieve the control objective.

Systems Development and Maintenance

Control Objective 6: Controls provide reasonable assurance that standards and procedures adequately document the service request and authorization process.

Controls	Tests Performed	Results of Tests
System modifications are initiated via service requests made to the call center or e-mails. Call center staff enter service requests into the Remedy Action Request System.	Inquired of the Information Technology Manager to gain an understanding of the procedures for service requests.	No exceptions noted
The Remedy Action Request System is used to record service requests made, including the requester's name, description of the problem, staff assigned, and date resolved.	Inspected change request reports from the Remedy Action Request System to determine if the required information was documented.	No exceptions noted
System modifications to CARDS, Fixed Asset Application, and Lease Revenue Bond Accounting Application require authorization from the CFS liaison.	Inquired of the CFS Accounting Administrator II and the OTR Information Technology Manager to gain an understanding of the requirements for system modifications. Observed operations.	No exceptions noted

Based on the tests of operating effectiveness described above, the controls are operating with sufficient effectiveness to reasonably achieve the control objective.

Control Objective 7: Controls provide reasonable assurance that systems developed or modified are appropriately tested prior to implementation.

Controls	Tests Performed	Results of Tests
The OTR Senior Program Analyst works with the CFS liaison to ensure that system modifications meet the needs of CFS.	Inquired of the OTR Senior Program Analyst and the CFS Accounting Administrator II to gain an understanding of the system modification procedures.	No exceptions noted
System testing is done within a test environment by copying the production file into the test environment.	Inquired of the Senior Program Analyst to determine if system testing is done within a test environment using a copy of the production file. Although no tests were conducted during our audit, the CFS Accounting Administrator II confirmed that prior tests followed established controls as stated.	No exceptions noted

Based on the tests of operating effectiveness described above, the controls are operating with sufficient effectiveness to reasonably achieve the control objective.

Control Objective 8: Controls provide reasonable assurance that production environment updates are properly authorized and implemented.

Controls	Tests Performed	Results of Tests
Only properly authorized personnel initiate and implement changes in the production environment.	Inquired of the OTR Senior Program Analyst to determine if changes into the production environment are restricted.	No exceptions noted
The OTR Senior Program Analyst obtains verbal approval from the CFS liaison before the modified program can be scheduled for introduction into the production environment.	Inquired of the OTR Senior Program Analyst to gain an understanding of the authorization requirements for introducing the modified program into the production environment. Changes are infrequent. The CFS Accounting Administrator II confirmed that system updates followed established controls as stated.	No exceptions noted

Based on the tests of operating effectiveness described above, the controls are operating with sufficient effectiveness to reasonably achieve the control objective.

Control Objective 9: Controls provide reasonable assurance that adequate documentation is developed for new systems and updated when modifications are made to existing systems.

Controls	Tests Performed	Results of Tests
User documentation is created and updated whenever new systems are developed or when modifications are made to existing systems.	Inquired of the CFS Accounting Administrator II and inspected manuals to determine if user documentation is created and updated.	The Lease Revenue Bond Accounting Application and Fixed Assets Application user manuals are updated. However, the CARDS user manual was not updated after system modification. Disposition: The CFS Accounting Administrator II indicated that the CARDS user manual will be updated after June 30, 2007.
Source modules of programs are maintained as part of the system documentation whenever new systems are developed, or when modifications are made to existing systems.	Inspected the CARDS system documentation which was the only system updated during the audit period to determine if source modules are maintained.	No exceptions noted

Based on the tests of operating effectiveness described above and the proposed corrective action as noted above, the controls are operating with sufficient effectiveness to reasonably achieve the control objective.

Computer Operations

Control Objective 10: Controls provide reasonable assurance that operating procedures are documented, updated, and complied with, and that problem resolution procedures are in place to ensure that computer hardware and software are operational and functioning as intended.

Controls	Tests Performed	Results of Tests
Operating policies, standards, and procedures are available to guide OTR staff in the performance of their assigned job responsibilities.	Inspected the Information Technology Standards Desktop & Mobile Computing manual dated November 2006.	No exceptions noted
Hardware and software problem corrections are initiated via a telephone call or e-mail request to the OTR. See Control Objective 6 for description of the Remedy Action Request System.	Inquired of the OTR Information Technology Manager to gain an understanding of the service request process. Also see Control Objective 6 for other tests.	No exceptions noted
Compliance with computer operating procedures is enforced.	Inquired of the Information Technology Manager to gain an understanding of how operating procedures are enforced.	No exceptions noted
Documentation of computer operating procedures is updated as needed to reflect changes in practice.	Inquired of the Information Technology Manager to determine whether the Information Technology Standards Desktop & Mobile Computing manual is updated periodically. Inspected the manual.	No exceptions noted

Based on the tests of operating effectiveness described above, the controls are operating with sufficient effectiveness to reasonably achieve the control objective.

Control Objective 11: Controls provide reasonable assurance that backup and off-site data storage procedures have been developed and are being followed.

Controls	Tests Performed	Results of Tests
Formal data back-up procedures are in place.	Inquired of the OTR Information Systems Analyst and observed the backup schedule to determine if formal back-up procedures are in place to safeguard data stored on magnetic tape.	No exceptions noted
Formal procedures are in place for tape retention.	Inquired of the Information Systems Analyst to determine if an official DGS policy on tape retention exists.	No exceptions noted
Back-up tapes are stored at an offsite location.	Inspected Vanguard Vaults pick-up sheet to determine whether backup tapes are stored offsite.	No exceptions noted
Critical tables, reports, files, and transactions are backed-up periodically and available on tape for 30 days.	Inquired of the OTR Senior Program Analyst and the Information Systems Analyst to determine if critical CFS data maintained by the OTR is backed-up periodically and available on tape for 30 days.	No exceptions noted

Based on the tests of operating effectiveness described above, the controls are operating with sufficient effectiveness to reasonably achieve the control objective.

Control Objective 12: Controls provide reasonable assurance that reports containing confidential information and other output documents are secured and distributed only to authorized individuals.

Controls	Tests Performed	Results of Tests
Reports generated by CFS are securely maintained in the operations area.	Inquired of the Accounting Administrator II and observed activities to determine if reports generated by CFS are securely maintained in the operations area.	No exceptions noted
Users are assigned a designated printer for output. Reports are distributed only to authorized individuals who requested the report.	Inquired of the Accounting Administrator II and observed activities to determine if users are assigned a designated printer for output, and that reports are distributed only to the authorized individuals who requested the report.	No exceptions noted
Various vendor and employee reports generated by the CARDS application shows only the last four digits of the social security number (SSN).	Inspected the CARDS vendor and employee reports to determine if these reports contained only the last four digits of the SSN.	<p>The CARDS vendor report contains the vendor's full social security number.</p> <p>Disposition: The CFS Accounting Administrator II confirmed that the programmer will correct this error.</p>

Based on the tests of operating effectiveness described above and the proposed corrective action as noted above, the controls are operating with sufficient effectiveness to reasonably achieve the control objective.

Budget

Control Objective 13: Controls provide reasonable assurance that appropriation data and budget plans are posted timely.

Control Objective 14: Controls provide reasonable assurance that budget status will be monitored and communicated to clients.

Control Objective 15: Controls provide reasonable assurance that the development of schedules required for the Governor's Budget are timely and accurate.

Controls	Tests Performed	Results of Tests
Record the annual appropriations in CALSTARS and reconcile to the SCO monthly tab run.	Inspected CALSTARS B06 report for selected clients and confirmed that appropriations were correctly posted for the period ending July 31, 2006, and agreed with the SCO's Notice of Budget Setup.	No exceptions noted
Record the budget plans in CALSTARS.	Inspected CALSTARS Q16 report for selected clients and confirmed that budget plans were correctly posted in CALSTARS and matched the Schedule 11s.	No exceptions noted
Follow written procedures contained in Budget and CALSTARS Manuals.	Inquired of the Account Managers to verify that they follow Budget Manuals and CALSTARS Procedures Manual. Observed the existence of these manuals in CFS.	No exceptions noted
Send monthly budget reports to clients.	Inspected the checklist for selected clients and confirmed that monthly budget reports were sent to clients.	No exceptions noted
Prepare special reports and expenditure projections as requested by clients.	Inspected and confirmed that Account Managers prepare special reports and projections as requested by clients.	No exceptions noted
Account Managers will review and follow budget letters.	Inquired of Account Managers to determine if they read and follow budget letters.	No exceptions noted
Supervisors review and approve quarterly checklists and documents.	Inspected quarterly checklists for selected clients to confirm that checklists were reviewed and signed by Supervisors.	No exceptions noted

Based on the tests of operating effectiveness described above, the controls are operating with sufficient effectiveness to reasonably achieve the control objectives.

Contracts and Purchases

Control Objective 16: Controls provide reasonable assurance that contracts and purchase documents are properly authorized.

Control Objective 17: Controls provide reasonable assurance that expenditures do not exceed authorized amounts and are processed accurately.

Controls	Tests Performed	Results of Tests
Payment Specialists review DGS-1 or GS-111 Forms to verify that purchases were properly authorized by clients.	Inspected DGS-1 or GS-111 Forms for selected clients to determine if purchases were approved by authorized officials.	No exceptions noted
Account Managers submit copies of signed contracts to a CFS employee who distributes the copies as required.	Inspected contracts log to determine if signed contracts were distributed as required.	No exceptions noted
Payment Specialists encumber contracts and purchase orders in the accounting records.	Inspected contracts and purchase orders of selected clients to determine if Payment Specialists properly recorded the encumbrances.	No exceptions noted. Additional information: It is CFS's practice to not record an encumbrance when a purchase order and the related invoice are received in the same month and the invoice fully liquidates the purchase.
Account Managers send CALSTARS D16 expenditure reports to clients monthly.	Inspected monthly checklist for selected clients to determine if CALSTARS D16 reports were sent to these clients.	No exceptions noted

Payment Specialists reconcile CALSTARS D16 reports to payment record forms.	Inspected payment records of selected clients to determine whether Payment Specialists reconciled them to the CALSTARS D16 report.	<p>8 out of 66 payment records tested were not reconciled monthly (12 percent of total tested).</p> <p>Disposition: During preparation of the quarterly reports, the Account Managers will now require Payment Specialists to verify that the D16 reports agree with the payment logs. This procedure will be added to the Account Managers checklist. To further ensure the accuracy of encumbrances, on an annual basis, Account Managers send a letter to clients along with the D16 report, requesting that they review their encumbrance listing for completeness and accuracy. This will be done in March or April so that changes, if necessary, can be made prior to year-end closing.</p>
Account Managers verify that funds are available and sign the contracts and purchase orders to document their certification.	Inspected contracts and purchase orders of selected clients to determine if Account Managers certified the availability of funds.	<p>34 out of 44 purchase orders tested were not signed or certified for availability of funds (77 percent of total tested).</p> <p>Disposition: Account Managers certify availability of funds only when directed by the client. CFS will review existing MOUs to clarify who should sign which documents.</p>

Based on the tests of operating effectiveness described above and the proposed corrective actions as noted above, the controls are operating with sufficient effectiveness to reasonably achieve the control objectives.

Payments

Control Objective 18: Controls provide reasonable assurance that all expenditures are paid timely and accurately.

Controls	Tests Performed	Results of Tests
All payment documents will be date stamped upon receipt.	Inspected invoices for selected clients to determine if they were date stamped.	<p>28 out of 188 invoices selected for testing were not date stamped (15 percent of total tested).</p> <p>Disposition: The invoice date is used to determine if prompt payment has been made. The date stamp is used to determine where the delay in processing the invoice has occurred. Without a date stamp, CFS assumes the responsibility for any late payment penalties. CFS will continue to emphasize to payment staff the importance of date stamping all invoices.</p>
Payment Specialists will review documents to determine due date.	Observed Payment Specialists' document review process.	No exceptions noted
Payment Specialists will verify if invoice has been approved by the client.	Reviewed DGS-1 or GS-111 Forms for selected clients to verify that the invoice was approved.	No exceptions noted
Payment Specialists will determine the accuracy of the client's expenditure coding (i.e. object/program code) or enter codes on the document.	Observed Payment Specialists' document review process.	No exceptions noted
Payment Specialists will review the Vendor Edit Report and source documents to confirm accuracy.	Inspected the Vendor Edit Report, invoice, and claim schedule to confirm accuracy.	No exceptions noted
Payment Specialists will determine payment method (claim schedule, expedite, or revolving fund).	Observed Payment Specialists' document review process.	No exceptions noted

Payment Specialists will check for penalties or reportable payments (Form 204 in the CARDS application).	Inspected invoices and vendor listing of selected clients to determine if Form 204 was obtained from clients.	No exceptions noted
Supervisors or lead Payment Specialists review claim schedules.	Inspected claim schedules of selected clients to determine if the Supervisor or lead Payment Specialist reviewed the claim schedule.	No exceptions noted
Account Managers review, sign, and distribute payment documents to the SCO.	Observed Account Managers' claim schedule review, approval, and distribution process.	No exceptions noted
Payment Specialists reconcile encumbrances to the CALSTARS D16 report.	Inspected contracts and purchases for selected clients to determine if Payment Specialists reconciled encumbrances to the CALSTARS D16 report.	<p>7 out of 71 transactions tested were not reconciled monthly (10 percent of total tested).</p> <p>Disposition: During preparation of the quarterly reports, the Account Managers will now require Payment Specialists to verify that the D16 reports agree with the payment logs. This procedure will be added to the Account Managers checklist. To further ensure the accuracy of encumbrances, on an annual basis, Account Managers send a letter to clients along with the D16 report, requesting that they review their encumbrance listing for completeness and accuracy. This will be done in March or April so that changes, if necessary, can be made prior to year-end closing.</p>
Written procedures prevent unauthorized payments of contract retentions. The contract amount net of retention and the retention amount are recorded separately.	Inspected written procedures and payment records to determine if the contract amount net of retention and the retention amount were recorded separately.	No exceptions noted

Account Managers review the CALSTARS D16 report to identify unpaid claim schedules.	Observed Account Managers' review process.	No exceptions noted
Account Managers review the CALSTARS edit activity error report and correct the errors.	Observed Account Managers' review and correction process, and inspected the edit activity error report.	No exceptions noted

Based on the tests of operating effectiveness described above and the proposed corrective actions as noted above, the controls are operating with sufficient effectiveness to reasonably achieve the control objective.

Payroll

Control Objective 19: Controls provide reasonable assurance that regular payroll warrants are distributed to clients timely.

Control Objective 20: Controls provide reasonable assurance that supplemental and special payroll warrants (salary advances, etc.) are distributed to clients timely.

Control Objective 21: Controls provide reasonable assurance that salary advances are collected timely.

Controls	Tests Performed	Results of Tests
Warrants are mailed (via FedEx or UPS) or picked-up by clients at least one day before the end of the pay period.	Inspected the Payroll Sign Out Log and the Outgoing Package Delivery Request Slip for selected clients to determine if warrants were mailed or picked-up at least one day before the end of the pay period.	No exceptions noted
Clients will sign the Payroll Sign Out Log when they pick up payroll warrants.	Inspected the Payroll Sign Out Log and Check Release Log for selected clients to confirm whether the client's authorized representative signed the logs when picking up regular and supplemental warrants.	No exceptions noted
CFS does not issue warrants without a release from client's personnel office.	Inspected Payroll Warrant Releases for selected clients and compared them to warrants issued.	No exceptions noted
All salary advance requests are approved by the client's personnel office.	Inspected salary advance requests for selected clients to determine if they were approved by the client's personnel office.	No exceptions noted
Requests for salary advances are reviewed by CFS staff to determine if there are any outstanding advances. CFS's cashier will contact the client's personnel office to inform them of the outstanding advance.	Observed the CFS cashier reviewing salary advance requests. Inquired of the cashier to determine if the client's personnel office is informed about outstanding salary advances.	No exceptions noted
An Account Manager will print the salary advance checks and another Account Manager will review the checks against the original requests before release.	Observed an Account Manager printing the revolving fund checks and another Account Manager reviewing the checks for agreement with the client's original request.	No exceptions noted

The last reviewer will take the checks to the DGS cashier for client pickup.	Observed Account Manager deliver checks to DGS cashier for client pickup.	No exceptions noted
Salary advances are entered into the CARDS application by Payments staff.	Inspected the CARDS salary advance reports for two selected clients to determine if Payments staff accurately entered the information into the system.	No exceptions noted
CFS will monitor the client's collection efforts and notify clients of long outstanding salary advances.	Inquired of the CFS cashier to determine whether clients are notified of long-outstanding salary advances, and whether their collections efforts are monitored. Reviewed outstanding advances.	No exceptions noted
With the client's approval, CFS will deposit regular salary warrants to collect outstanding advances, and issue a net check to the employee.	Inspected the employee information report in CARDS for selected employees, and compared the information with the Request for Revolving Fund Check in Lieu of Salary Warrant.	No exceptions noted

Based on the tests of operating effectiveness described above, the controls are operating with sufficient effectiveness to reasonably achieve the control objectives.

Accounting

Control Objective 22: Controls provide reasonable assurance that CFS maintains accurate and current accounting records.

Control Objective 23: Controls provide reasonable assurance that monthly reconciliations are completed correctly and timely.

Controls	Tests Performed	Results of Tests
Account Managers work with clients to maintain CALSTARS tables.	Inquired of Account Managers to determine whether they work with clients to maintain CALSTARS tables.	No exceptions noted
The CFS Cashier prints CALSTARS journal entries and delivers them to Account Managers.	Observed and inquired of Account Managers to determine if cashier prints and delivers journal entries as required.	No exceptions noted
Account Managers or Payment Specialists code and record all monthly transactions timely.	Observed and inquired of Account Managers whether they (or Specialists) code and record monthly transactions during the 1st or 2nd week following the end of the preceding month.	No exceptions noted
Account Managers run the cost allocation and/or fund split and complete the Plan of Financial Adjustment (PFA).	Inquired of Account Managers about the cost allocation and fund split process. Inspected the CALSTARS Q22 report and the SCO transaction request form for selected clients to determine if the Account Manager completed the cost allocation, fund split, and PFA.	No exceptions noted
Account Managers reconcile client activity with SCO balances monthly. Supervisors review and approve the reconciliations quarterly.	Inspected selected CALSTARS DB1, DB2, and SCO Tab Run reports to determine if Account Managers reconciled to SCO balances monthly, and whether the reconciliations were reviewed and approved.	No exceptions noted
CFS reconciles bank accounts, including the Office Revolving Fund (ORF) monthly.	Observed the Account Manager reconciling the ORF and inspected selected bank reconciliations for checking account 089.	No exceptions noted

Account Managers perform quarterly reviews of each client's account activity according to an established checklist. Supervisors review and approve the completed checklists.	Inspected quarterly review checklists for selected clients to determine if they had been completed and approved.	1 out of 2 clients selected for testing had not undergone a quarterly review since fiscal year 1999-2000. Disposition: The CFS Manager confirmed that the respective Account Manager will complete the quarterly review starting with the quarter ending March 31, 2007. Auditor confirmed that this review was completed on April 25, 2007 and reviewed by the supervisor on April 26, 2007.
Account Managers perform year-end closing procedures for clients according to an established checklist. Supervisors review and approve the completed checklists.	Inquired of Account Managers and inspected the year-end checklists for fiscal year 2005-06 to determine whether they performed the year-end procedures as required, and whether supervisors reviewed the checklists.	No exception noted

Based on the tests of operating effectiveness described above and the corrective action as noted above, the controls are operating with sufficient effectiveness to reasonably achieve the control objectives.

Reporting

Control Objective 24: Controls provide reasonable assurance that monthly and quarterly financial reports are accurate and distributed timely to clients.

Control Objective 25: Controls provide reasonable assurance that annual state, federal, and other year-end reports are accurate and distributed timely to clients.

Controls	Tests Performed	Results of Tests
Account Managers order CALSTARS reports for clients monthly, and prepare special reports as requested.	Inquired of Account Managers and inspected monthly checklists for selected clients to determine if Account Managers ordered the CALSTARS reports and prepared special reports as requested by clients.	No exceptions noted
Account Managers complete quarterly reports in accordance with SAM requirements, and submit copies to clients.	Inspected checklists and quarterly reports for selected clients to confirm that they had been prepared and submitted.	1 out of 2 clients selected for testing had not received a quarterly report since fiscal year 1999-2000. Disposition: The CFS Manager confirmed that the respective Account Manager will complete the quarterly report starting with the quarter ending March 31, 2007. Auditor confirmed that this report was prepared and sent to the client on April 24, 2007.
The CFS Manager certifies all year-end reports.	Inspected year-end reports to confirm whether they were certified by the CFS Manager.	No exceptions noted
Year-end reports are prepared and hand-delivered to the SCO by the due date.	Inquired of CFS supervisors to determine if year-end reports were prepared and hand delivered to the SCO by the due date. Inspected SCO receipt signatures on transmittal memos to confirm that statements were received on time.	No exceptions noted
The revolving fund deficiency report is submitted to OSAE annually.	Inspected CFS's Office Revolving Fund Deficiency Claims Memorandum to confirm whether it was submitted to OSAE by the due date.	No exceptions noted

Based on the tests of operating effectiveness described above and the corrective action as noted above, the controls are operating with sufficient effectiveness to reasonably achieve the control objectives.

Cash Receipts

Control Objective 26: Controls provide reasonable assurance that collections sent to CFS are deposited timely.

Control Objective 27: Controls provide reasonable assurance that deposits made by CFS are recorded properly.

Controls	Tests Performed	Results of Tests
All checks received by CFS are promptly endorsed and deposited daily.	Observed the CFS cashier to determine if all checks received were endorsed and deposited daily.	No exceptions noted
Checks are recorded in the cashier's log by clients or Account Managers.	<p>Inspected selected cashier's logs and the Daily Cash Receipt Transaction Reports to determine if Fund 200 checks were recorded in the cashier's logs.</p> <p>Inquired of CFS cashier to determine if Fund 100 checks were recorded in the cashier's log.</p>	<p>3 out of 83 Fund 200 checks tested were not recorded in the cashier's log.</p> <p>Fund 100 checks were recorded in the cashiers log by mid-April 2007.</p> <p>Disposition: On April 4, 2007, the CFS Manager issued Directive 2006-04, which requires that the cashier will (a) verify that all checks on the Report of Collections are recorded on the cashier's log, (b) list the deposit number for each entry, and (c) enter any Report of Collections or checks missing on the cashier's log.</p>
The CFS cashier compares checks to the Report of Collections and the cashier's log.	Inspected selected cash receipts transactions on the Daily Cash Receipt Transaction Report to determine if Fund 200 checks on the Report of Collections agreed with the cashier's log.	<p>2 out of 83 Fund 200 checks tested were not accurately recorded. Specifically, the cashier's log was understated by \$79,373.85.</p> <p>Disposition: On April 4, 2007, the CFS Manager issued Directive 2006-04 as described above.</p>

The cashier enters deposits into the CARDS application and files a transaction summary sheet in the client's folder. The summary sheet is used by Account Managers to remit funds.	Observed the cashier to determine if client-deposited collections were entered into CARDS, and that summary sheets were filed in the client's folder.	No exceptions noted
The cashier runs an adding machine tape on all checks and compares total to cash receipts register.	Inspected the cash receipts register and tapes to confirm agreement of totals.	No exceptions noted
The cashier secures the bank deposit in a sealed bag and requires the courier to sign for the transfer.	Observed operations and inquired of the cashier about bank deposit procedures. Inspected the Daily Deposit Pickup Log for evidence of courier signature. Inspected the Daily Cash Receipt Transaction Report for selected dates to determine if the deposit agreed with the amount transferred to the courier.	No exceptions noted
The cashier notifies the State Treasurer's Office when deposits exceed \$100,000.	Inspected e-mails sent by the cashier to the State Treasurer's Financial Services Section to confirm notification.	No exceptions noted
Bank statements are reconciled monthly.	Inspected bank statements for selected months to verify monthly reconciliation.	No exceptions noted
Account Managers reconcile general cash.	Inspected the checking account 089 cash balance report and the general cash reconciliation spreadsheet for selected clients to confirm that Account Managers reconciled general cash.	No exceptions noted

Supervisors reconcile receipts in CARDS to Reports of Deposit.	Inspected the Deposit Summary Listing and Reports of Deposit to confirm that supervisors reconciled receipts with amounts in CARDS.	No exceptions noted
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Based on the tests of operating effectiveness described above and the corrective actions as noted above, the controls are operating with sufficient effectiveness to reasonably achieve the control objectives.

Cash Disbursements

Control Objective 28: Controls provide reasonable assurance that the revolving fund is properly used.

Control Objective 29: Controls provide reasonable assurance that reconciliations are completed monthly.

Control	Tests Performed	Results of Tests
An Account Manager prints checks and ensures that checks over \$15,000 have two signatures.	Inspected a sample of checks over \$15,000 to determine if they had two signatures.	1 out of 32 checks tested over \$15,000 did not have two signatures. Disposition CFS now highlights all checks over \$15,000 in bold on the Preliminary Listing of Checks Printed.
Payment Specialists are authorized to make disbursements from the revolving fund up to \$15,000. Payments over \$15,000 require supervisor approval unless made to a utility company.	Inspected selected checks over \$15,000 to determine if supervisor approval was obtained.	No exceptions noted
The check printing function and the check review-release function are performed by different Account Managers, neither of whom have access to CARDS disbursements or payment functions.	Inspected the Daily Log of Checks Written for proper segregation of check printing and review-release duties.	No exceptions noted
Checks are delivered to DGS cashiering or mailed to vendors depending on client request. All checks delivered to DGS cashiering are signed for.	Observed the CFS cashier to determine if checks were mailed to vendors, or delivered to DGS cashiering and signed for.	No exceptions noted
All travel expense claims are paid by revolving fund. Payment Specialists review travel claims and enter amounts in CARDS.	Inspected claim schedules and CARDS for proper accounting of travel expense claims.	No exceptions noted

All employee checks (travel claims, travel advances, and salary advances) are printed, reviewed, and distributed the same as vendor checks.	Observed the check writer and check releaser to determine if employee checks were printed, reviewed, and distributed the same as vendor checks.	No exceptions noted
Payment Specialists call the client's personnel office to obtain SSN if employee is not in the system.	Inquired of Payment Specialists to determine if they called the personnel office to obtain employee SSNs.	No exceptions noted
The revolving fund is reconciled monthly.	Inspected revolving fund reconciliations for selected months to verify completion.	No exceptions noted

Based on the tests of operating effectiveness described above and the corrective action as noted above, the controls are operating with sufficient effectiveness to reasonably achieve the control objectives.

Fixed Assets

Control Objective 30: Controls provide reasonable assurance that property accounts are accurate and complete.

Controls	Tests Performed	Results of Tests
Assets valued at \$5,000 and above are capitalized and recorded in the general ledger as required by SAM.	Inspected CALSTARS G01 report for selected clients to determine whether items \$5,000 and above were capitalized.	No exceptions noted
CFS sends property listings and update instructions to clients annually.	Inspected selected letters and property listings to determine whether CFS sent them to clients annually for update.	No exceptions noted
CFS reconciles equipment transactions with the property listing and general ledger monthly. Supervisors review and approve the equipment reconciliations quarterly.	Inspected equipment reconciliation worksheets, property listings, and general ledger accounts to determine if Account Managers reconciled the equipment, and if supervisors reviewed the completed reconciliations.	One minor equipment reconciliation was not completed as requested by client. Disposition: This client's minor equipment reconciliation has now been brought up to date.

Based on the tests of operating effectiveness described above and the corrective action as noted above, the controls are operating with sufficient effectiveness to reasonably achieve the control objective.



DEPARTMENT OF GENERAL SERVICES

Office of Fiscal Services Contracted Fiscal Services

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August 9, 2007

Ms. Diana L. Ducay, Chief
Office of State Audits and Evaluations
Department of Finance
300 Capitol Mall, Suite 801
Sacramento CA 95814

Dear Ms. Ducay:

Thank you for the opportunity to respond to the draft audit report on the Department of General Services, Contracted Fiscal Services- Examination of Service Provider Controls. We appreciate the effort and professionalism of your audit team in reviewing our internal controls and procedures.

We have implemented additional controls to strengthen all exceptions noted in your testing of our controls. The only remaining issue is updating our CARDS Manual. Our plan is to update the CARDS Manual after we have completed the 2006-2007 fiscal year end requirements.

If you have any questions, please call me at (916) 376-5237.

A handwritten signature in cursive script that reads "Brian Thomas".

Brian C. Thomas, Manager
Contracted Fiscal Services
Department of General Services